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Caution Ahead: On Economic Growth and Election Spending

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(This editorial is based on the article “Caution ahead: on economic growth and election spending” which appeared in The Hindu on 11th January 2019.)

India is Perennially in the Election Mode

We have seen time after time that election-season temptations for populist spending pose a challenge to the growing economy. Therefore, one of the significant near-term risks to the economy is the general election that is expected to be held in May.

Elections in India

- **Elections are considered to be very expensive in India and analysts frequently speculate that, with each passing election, the costs of campaigns are ratcheting further upwards.**
- The perceived increase in campaign costs is often assumed to mean that bribes—what political scientists refer to as “vote buying”—might be on the rise.
- **What candidates actually spend their money on during these expensive campaigns remains unclear due to the paucity of credible data on real expenses.**

Elections and its Effect on the Economy

- A major risk to the economy in the medium to long term is the absence of meaningful structural reforms that are necessary to streamline the election process. **An increase in short-term economic productivity combined with populist policies eventually do more harm to the economy than good.**
- Ahead of the general election, the government may wish to help growth by boosting spending (*to appeal more voters*), but any such move is ill-advised because with the fiscal deficit exceeding the Budget estimate by 15% in just the first eight months of the fiscal year, **the government cannot crank up spending without severely affecting its finances, along with investor confidence in the economy.**

Why Campaigns are Getting More Expensive

- **First, the slow but steady increases in the size of constituencies play a major role in the increased spending. Simply put, larger populations require candidates to spend more.**
- **Second, there may be generational changes that affect the cost of campaigns.** For example, in Mumbai, the rising number of young educated voters who are beyond the reach of parties' traditional influence and increasingly independent from their families' partisan preferences would require a different method to appeal to, and this would cost money.
- **Third, and most importantly, a steady rise in political competition and in the number of candidates contesting an election has sparked an arms race in campaign spending.** More candidates automatically means more uncertain elections, and hence costlier contests for candidates who are forced to match the expenses of their competitors. In that sense, costlier elections may not result from lower levels of morality in the political class or from a surge in bribe giving. They instead likely flow from rising levels of political competition, which may be doing harm as well as good (*one cannot be sure at this point*).

Status of Indian Economy

- The first advance estimate of gross domestic product (GDP) growth for 2018-19 released by the Central Statistics Office paints a mixed picture of the economy.
- **The GDP growth rate for the full year is projected to be at 7.2%, which is significantly higher than the growth rate of 6.7% achieved last year.**
- Many sectors of the economy are projected to do better than they did last year in the aftermath of the twin shocks of demonetisation and the rollout of the Goods and Services Tax.
- **Sectors such as manufacturing and construction, for instance, are projected to grow at a healthy pace of 8.3% and 8.9%, respectively, both of which are higher than the growth rate of below 6% that each sector witnessed last year.**
- Interestingly, the CSO's growth estimate for 2018-19 appears conservative and is lower than the estimates made by institutions such as the Reserve Bank of India and the World Bank.
- Investment spending, which has ailed the economy for long, is also expected to pick up in this financial year. **Gross fixed capital formation as a percentage of GDP is expected to reach 33%, the highest in three years.**

Way Forward

- **The EC has said that a limit to a party's election spending hinges on the limit placed on individual candidate spends, and proposed that the party limit should**

be 50% or less of the combined maximum spend prescribed for all of the party's candidates. [The Law Commission has said in the past that a party spending limit will be extremely difficult to implement and monitor, so it remains to be seen whether the EC's proposal will pass muster]

- **The EC places a cap on how much individual candidates can spend, based on what legislature they're campaigning for and what state they're in, but has not yet placed a cap on the election expenditure incurred by a party.**
- For a Lok Sabha candidate, the cap is between ₹5 and ₹7 million while the cap for state assembly candidates is between ₹2 and ₹2.8 million.
- **As part of its bid to crack down on electoral spending, the EC also wants to limit anonymous donations to 20% of a party's total collections. This would be a significant reform as parties usually declare most of their donations as being from anonymous donors.**
- While the EC has capped online cash donations to political parties at ₹2,000 and facilitated the launch of electoral bond sales, it still has more to work to do in making the political funding more transparent.
- **A number of political parties, including the BSP, never end up declaring any donors because they say all their individual donations are less than ₹2,000.**
- According to the ADR (Association for Democratic Reforms), 46% of all the funds political parties received in 2016-17 came from unknown sources.

Thus, we can see that the EC wants to curb unnecessary election spending, especially money that is spent for nefarious purposes. Political parties along with all stakeholders in our democracy should therefore work towards setting up an auditing and limiting system, for election spending, in the greater interest of preserving equality and transparency in the country.